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WHA/BSC FOR - FRIEDMAN

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TAGS: [PREL](#) [PTER](#) [KCRM](#) [SNAR](#) [PA](#)  
SUBJECT: PARAGUAY SCENESETTER FOR WHA/BSC DEPUTY DIRECTOR  
BRUCE FRIEDMAN

Classified By: Michael J. Fitzpatrick, CDA a.i.; Reasons 1.4(b),(d)

¶1. (C) Bruce: Embassy Asuncion warmly welcomes your visit as an opportunity to promote U.S. interests focused on strengthening democratic institutions, promoting sound economic policies and good governance, disrupting criminal organizations, and combating terrorist financing. You come at a particularly sensitive time, with President Duarte feeling strong one moment (after &thumping8 the opposition in November,s municipal elections and announcing his efforts to amend the constitution to permit his re-election in 2008) and buffeted the next (as he is now in the wake of this week,s riots over judicial corruption, the worst Asuncion has seen in years). Bilaterally, significant actors routinely call into question important aspects of our security relationship. Most Paraguayans, however, support closer U.S. ties, especially to offset their uneasiness over the Venezuela-Bolivia Military Agreement.

¶2. (SBU) An overview of the current situation in Paraguay follows, highlighting key issues which may come up in your scheduled meetings.

The Political Scene: President Duarte,s Efforts Under Fire

¶3. (C) Your visit comes three years into the presidency of Nicanor Duarte Frutos. In that time, Duarte has taken steps to deal with a pressing fiscal crisis, reviving the economy, and fighting corruption. In the last year, however, political support for Duarte has sagged, with polls indicating the general population is not satisfied his government has taken adequate measures to create jobs, improve the economy and tackle corruption. In addition he continues to seek a Constitutional Amendment allowing for his reelection. Much of the population as well as the opposition parties and some within the Colorado Party (who seek to back other candidates) are dead-set against reelection.

Paraguay,s Public Security Challenges

¶4. (C) Twelve members of the Free Fatherland Party (PPL) -- a far-left, rural-based political movement -- wer found guilty this month in the kidnapping and murder of the daughter of former president Raul Cubas. The body of Cecilia Cubas was discovered in February 2005. Paraguay continues to fail in its efforts to obtain the expulsion from argentina, Brazil and Bolivia of others implicated who took refuge abroad. Evidence ties the PPL to the Revolutionary Armed Forces of Colombia (FARC). The Cubas kidnapping has proven to be one in a series of recent events that suggest the emergence of a political movement bent on provoking instability through violence. A culture of distrust, allowing for little inter-institutional cooperation, hampers the ability of Paraguay,s law enforcement community and military to tackle rising concerns about public security; Paraguay,s National

Police are widely disparaged by the general population as incompetent and corrupt, and the police and military are rivals, not partners. The Cubas killing and clear evidence of FARC involvement shocked Paraguay,s leaders and population. Increased cooperation with Colombia and the U.S. and the realization of the need for better intelligence and other security measures were positive, if ironic, results of the Cubas case.

#### Reforming the Economy, But Growth Insufficient

¶15. (U) Paraguay,s economy relies heavily on agriculture. It features bloated but weak state institutions and the heavy involvement of state-owned enterprises. There is considerable activity involving the trading of imported legitimate goods, contraband and counterfeit products, most of which are destined for Brazil or Argentina. President Duarte took office in 2003 inheriting a weak economy and promising to attack widespread corruption and reform the economy. He named a non-partisan, technocratic economic cabinet and has supported their efforts. On a macroeconomic level, Paraguay,s performance has been strong: economic growth reached 2.9 and 3.0 percent in 2004 and 2005, respectively, and inflation was held down to near 3 percent in 2004 though it reached 9.9 percent in 2005. The IMF expects 2006 growth near 4 percent and year-on-year inflation near ten percent. However, whereas the government succeeded early on in getting some significant economic reform laws through Congress, progress over the two years has been slow. The confrontation between Congress and the Executive has all but frozen any reform efforts that require legislation; the Congress has rejected several concessional loans (from the IDB and Japan) and suspended for one year the application of the previously authorized personal income tax. For Paraguay to escape from the poverty affecting roughly half of its population, the country needs to increase productivity by

attracting capital and raising annual growth rates to at least 5 or 6 percent -- and sustaining them there. Success will require the government to stay the course on macroeconomic stability and undertake deeper structural reforms. But as the President now gears up for a bruising 2007 fight over re-election, there is no sign of the political will necessary.

#### International Crime and Counter Terrorism

¶16. (U) The Tri-Border Area (TBA), the region of Paraguay that meets Brazil and Argentina near the city of Ciudad del Este, is a primary USG concern. The area is notorious for drug and other smuggling, including trafficking in persons, trafficking in arms, intellectual piracy, document forgery, counterfeit cigarette manufacturing and loose border controls (especially at the Friendship Bridge connecting Paraguay with Brazil).

¶17. (SBU) Paraguay has a well-deserved reputation as the weakest link in combating the wide range of illicit activities that occur in the TBA. Corruption at multiple levels undercuts serious law enforcement efforts. Nevertheless, Paraguay has taken serious steps to address its institutional deficiencies by creating special units, principally in Customs and the Ministry of Industry and Commerce (MIC) to investigate more effectively IPR violations and customs fraud. The MIC,s Specialized Technical Unit (UTE) in particular has made a number of significant seizures of counterfeit products. These units receive significant assistance from the USG in the form of INL funds or the MCC Threshold Program.

¶18. (SBU) Paraguay,s Anti-Money Laundering Secretariat (SEPRELAD) has also received technical assistance and equipment from the U.S. Paraguay has subscribed to all 12 UN counter-terror conventions but its anti-money laundering law is lacking in that it does not allow for prosecution of money laundering as an autonomous crime. Nor does Paraguay yet have counter terrorism legislation. Paraguay seeks to meet its international obligations through provisions in a series

of three bills. UNCTC Executive Ruperez approved of the draft legislation text when he visited in July 2007. The first bill establishing money laundering and terrorist financing as crimes and setting out the consequent penalties was delivered to Congress this October. The bill on procedural tools for the prosecution of these crimes remains under arduous debate before a Legislative Reform Commission and could face much of the same when it is submitted to Congress. The law establishing SEPRELAD,s regulatory authorities has been drafted but not yet submitted to Congress pending movement on the first bill. Paraguay,s SEPRELAD could face suspension from the Egmont Group should this bill not be adopted before June. In the absence of an effective money laundering law, Paraguay has prosecuted three alleged Hizballah terrorist financiers for tax evasion.

¶9. (SBU) Paraguay,s Anti-Drug Secretariat (SENAD) represents the single-most effective law enforcement body in Paraguay. Working closely with the U.S., it has effectively targeted Brazilian trafficking groups that are run mostly out of Pedro Juan Caballero (PJC) on Paraguay,s northern border with Brazil. Within the last six months, SENAD has made a number of significant arms seizures with evidence signaling links to Brazil,s PCC and Colombia,s FARC. While these weapons were seized in PJC and Asuncion, arms and drug trafficking also occur out of CDE. Presently, SENAD is hard-pressed to meet challenges in that region for lack of resources (its national annual budget is just \$2 million).

¶10. (SBU) Paraguay has signaled concern about potential terrorist financing occurring out of the TBA but will be reluctant to speak to this issue publicly. Irrespective of our success in forging political consensus on a public statement on terrorist financing in the TBA we should shore up agreement that the widespread illicit activity that occurs there opens the door to terrorist financing. We should also strengthen cooperation on the ground at the local level and between governments in undertaking investigations and prosecuting cases. To the extent we can speak to how this effort rebounds to Paraguay,s benefit in fighting corruption, promoting economic development and countering crime and insecurity, Paraguay will likely be predisposed to be supportive. We are watching closely CDE and government reactions to the December 6 OFAC designations of TBA Hizballah financiers.

¶11. (SBU) Despite preoccupation with close-to-home terrorism issues including kidnappings, local violent radicals, the FARC, and fund-raising for Hezbollah, Paraguay is reluctant to take a lead in the war on terrorism beyond its borders.

This is due to pressure from Brazil as well as domestic concerns that an aggressive anti-terrorism policy (e.g., vis a vis the Middle East) will draw terrorist reprisals. In addition, memories of abuses under the Stroessner dictatorship (1954-1989) still cast a long shadow. In 2004, President Duarte received JCS Chairman General Myers but then made a public show of announcing that Paraguay would not send a contingent to Iraq despite having volunteered to do so to President Bush a year earlier. Given recent false allegations the U.S. wants to establish a military base in Paraguay, we recommend tailoring any public remarks about Paraguay,s role in the GWOT in a way that will not lend fuel to these false claims. It is perhaps best to focus interlocutors on attacking corruption and the facilitation of international crime as a way to improve Paraguay,s international image.

¶12. (SBU) Paraguay is a significant transit point for the transportation of cocaine and other narcotics by air from Colombia and Bolivia to Brazil. Much of the northwestern part of the country is barren and uninhabited, and the GOP has difficulties in enforcing the law due to geography and the political (and judicial) power some drug traffickers wield. SENAD, the National Anti-Narcotics Secretariat, coordinates GOP interdiction efforts, with significant assistance from the DEA and training support from US Special Forces JCETS. In 2004, Paraguay and Brazil collaborated in a

joint operation, with DEA assistance that produced an historic seizure of over 260 kilograms of cocaine and the arrest of Brazilian drug kingpin Ivan Carlos Mendes Mesquita, wanted in the U.S. on drug trafficking charges. Paraguay cooperated with the USG extradition request and Mendes Mesquita was taken into U.S. custody in 2005, a dramatic and unprecedented step. Post considers this case emblematic of the success we have been able to achieve by working with the SENAD as an autonomous unit.

#### Regional Concerns

¶13. (C) The political situation in Bolivia and the activities of President Evo Morales are currently at the center of the political radar screen in Paraguay. Some Paraguayans have conveyed to us a concern about lingering irredentist claims within some segments of the Bolivian military to territory in the Chaco—a vast region in Western Paraguay that borders Bolivia and served as the site of a war with Paraguay in the 1930s—that could stir controversy and tension should Bolivia suffer an extended period of instability. Brazil and Paraguay rely on Bolivian infrastructure for land traffic extending to the Pacific coast that could be jeopardized in the event of instability in Bolivia. Recently, some Bolivian commentators, including political officials, have signaled concern that the U.S. sought to establish a military base in the Chaco for the purpose of monitoring activities in Bolivia or attempting to control energy resources in the Bolivian and Paraguayan Chaco region. Paraguay and Bolivia relations remain tense over the Venezuelan and Bolivian Military Agreement announced this Fall. Some within the Paraguayan government, civil society and the media have expressed the desire for Paraguay to enter into a bilateral security agreement with the United States. A small circle of senior government officials is currently considering a USG-proposed 5-year SOFA granting A&T privileges and immunities for US military personnel.

#### U.S. Activities

¶14. (SBU) U.S. activities in Paraguay are focused on strengthening democratic institutions, promoting sound economic policies and good governance, disrupting criminal organizations, and combating terrorist financing. Post maintains bilateral assistance programs dealing with combating narcotics trafficking, money laundering, intellectual property violations, and trafficking in persons.

A Department of Justice Resident Legal Advisor and advisors from Treasury's Office of Technical Assistance worked quietly behind the scenes over the last three years to assist the Paraguayan Government in developing appropriate money laundering and counter-terror legislation. In the wake of the Cubas kidnapping, Vice President Castiglioni traveled to the U.S. for meetings with VP Cheney, SECDEF Rumsfeld, and other key officials to discuss a comprehensive approach to Paraguay's security challenges, including a high-level seminar sponsored by the Center for Hemispheric Defense Studies (CHDS) that was held in September 2005. SECDEF Rumsfeld visited Paraguay in August 2005. CHDS has followed-up with comprehensive meetings last week on transformation and reformation of the military. Paraguay has expressed interest in acquiring technical assistance in development of its National Security Strategy and National Defense Plan. USAID and the Peace Corps also have programs

in the country. Paraguay began to implement at USD 34 million Millennium Challenge Account Threshold Program in May; its poor historical record on corruption was the major reason it did not qualify for full participation in the program. The Threshold Program focuses on combating impunity and informality.

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